

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 SP-02
AID-05 EB-08 NSC-05 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 DODE-00 NSCE-00 SSO-00 USIE-00
INRE-00 L-03 H-02 PA-02 PRS-01 IGA-02 AGRE-00
FEAE-00 /119 W

-----271832Z 015802 /41

O R 271855Z APR 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 3167
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
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USMISSION EC BRUSSELS
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USDEL MTN GENEVA
USDOC WASHDC

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DEPARTMENT PASS FEDERAL RESERVE BOARD

TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD APRIL 21 - 27

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SUMMARY: NORTH SEA OIL IS LIKELY TO PROVIDE HALF OF
BRITAIN'S DOMESTIC REQUIREMENTS IN 1977. BRITAIN AGREED
TO A 2.9 PERCENT DEVALUATION OF THE "GREEN" POUND. BOTH
CONSUMER EXPENDITURE WHICH DROPPED BY 2.1 PERCENT IN THE
FIRST QUARTER AND UNEMPLOYMENT WHICH ROSE IN APRIL AFTER
DECLINES IN FEBRUARY AND MARCH INDICATE CONTINUING WEAK-
NESS IN THE LEVEL OF OVERALL ECONOMIC ACTIVITY. STERLING

REMAINED STEADY WHILE SHORT-TERM INTEREST RATES CONTINUED
THEIR RECENT DECLINES LONG-DATED ISSUES REMAINED
STEADY. END SUMMARY.

1. CONSUMER EXPENDITURE. IN THE WAKE OF A 2.7 PERCENT
DECLINE IN RETAIL SALES VOLUME, SHARPLY LOWER CONSUMER
EXPENDITURE IN THE FIRST QUARTER OF 1977 CAME AS NO SUR-
PRISE. PROVISIONALLY ESTIMATED AT 8.740 BILLION POUNDS
(1970 PRICES) CONSUMER EXPENDITURE DROPPED BY 2.1 PER-
CENT FROM THE FOURTH QUARTER FIGURE OF 8.925 BILLION.
NEARLY ALL SPENDING CATEGORIES REPORTED LOWER PURCHASE
LEVELS, THE ONLY EXCEPTIONS BEING CLOTHING, SHOES AND
"FUEL AND LIGHT." THE FOLLOWING TABLE SUMMARIZES THE
MOVEMENT IN CONSUMER EXPENDITURE (SEASONALLY ADJUSTED)
OVER THE PAST FIVE QUARTERS:

MILLIONS OF POUNDS
(1970 PRICES)

1976 - I	8811
1976 - II	8730
1976 - III	8824
1976 - IV	8925
1977 - I (PROVISIONAL)	8740

THE FOURTH QUARTER FIGURES WERE SOMEWHAT INFLATED BY AN-
TICIPATORY PURCHASES PARTICULARLY OF WINE AND SPIRITS IN
ADVANCE OF EXPECTED INCREASES IN VALUE ADDED AND EXCISE
TAXES. NEVERTHELESS, A TREND TOWARD LOWER CONSUMER EXPEN-
DITURE MAY BE UNDERWAY AS REAL INCOMES CONTINUE TO BE
ERODED. THE FIRST QUARTER SPENDING FIGURES PROBABLY PRE-
SAGE NEGATIVE REAL GROWTH IN GDP. THE OTHER ELEMENTS
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(NET EXPORTS, GOVERNMENT EXPENDITURE, FIXED AND INVEN-
TORY INVESTMENT) ARE NOT LIKELY TO OFFSET FULLY THE DE-
CLINE IN CONSUMER EXPENDITURE.

2. UNEMPLOYMENT REMAINED ON A PLATEAU IN APRIL. A SEAS-
ONALLY ADJUSTED TOTAL OF 1.3226 MILLION PEOPLE (5.6 PER-
CENT) EXCLUSIVE OF SCHOOL LEAVERS WERE ON THE JOBLESS
ROLLS IN THE MONTH THROUGH MID-APRIL. THIS IS A RISE OF
1,500 FROM THE PREVIOUS MONTH'S TOTAL. WHILE ADULT UN-
EMPLOYMENT DECLINED BY 11,000 IN APRIL, THE FIRST GROUP
OF THIS YEAR'S SCHOOL LEAVERS RAISED THE UNADJUSTED UN-
EMPLOYMENT TOTAL BY 8,800 TO 1.3926 MILLION (5.9 PERCENT).
SINCE SEPTEMBER 1976 THE TOTAL NUMBER OF UNEMPLOYED (S.A.)
HAS REMAINED VIRTUALLY STATIC. DESPITE BOTH ADVERSE DEMO-
GRAPHIC AND CYCLICAL FACTORS. HIGH BIRTH RATES IN THE
EARLY 1960'S ARE EXPECTED TO ADD ABOUT 150,000 NEW EN-

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CIAE-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 DODE-00 NSCE-00 SSO-00 USIE-00
INRE-00 L-03 H-02 PA-02 PRS-01 IGA-02 FEAE-00
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O R 271855Z APR 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 3168
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
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TRANS TO THE LABOR FORCE EACH YEAR BETWEEN 1977 AND
1982. IN ADDITION, THE UPTURN IN OUTPUT PER MEMBER OF
THE EMPLOYED LABOR FORCE APPEARS TO HAVE BEEN LESS STRONG
THAN THE NORMAL CYCLICAL PATTERN WOULD HAVE SUGGESTED.
THE TROUGH OF THE CURRENT CYCLE HAS BEEN OFFICIALLY SET
AT THE THIRD QUARTER OF 1975. OVER THE 5 QUARTERS SINCE
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THEN, THERE WAS A 5.4 PERCENT INCREASE IN OUTPUT PER HEAD COMPARED WITH AN 11.2 PERCENT RISE OVER THE COMPARABLE PERIOD IN THE PREVIOUS CYCLE. ONE EXPLANATION BEING ADVANCED TO EXPLAIN THE SLUGGISH RISE IN THE JOBLESS FIGURES IS THE VARIOUS GOVERNMENT PROGRAMS PROVIDING SUBSIDIES. RETRAINING FACILITIES. INCENTIVES TO HIRE THE SCHOOL LEAVERS, ETC. WHICH HAVE BEEN IN PLACE FOR OVER A YEAR. THESE ARE CREDITED WITH PRESERVING, CREATING, OR PROVIDING TRAINING PLACES FOR ABOUT 300,000 INDIVIDUALS AND HOLDING THE INCREASE IN UNEMPLOYMENT ABOUT 200,000 BELOW WHAT IT OTHERWISE MIGHT HAVE BEEN (FURTHER DETAILS IN SEPTEL.)

3. STERLING CONTINUED ITS STABLE TREND. THE BANK OF ENGLAND MAINTAINING A CAP AT \$1.72. DURING MOST OF THE WEEK, BASIC MARKET FORCES KEPT STERLING STEADY AND FAIRLY QUIET, WITH ACTIVITY CENTERED IN OTHER CURRENCIES; THE YEN AND SWISS FRANC UNDER SOME DOWNWARD PRESSURE, AND THE GUILDER UNDER UPWARD PRESSURE ON REVALUATION RUMORS. THE POUND WAS PLACED UNDER DOWNWARD PRESSURE FROM THE CONTINENT ON MONDAY. AFTER FRIDAY'S MLR CUT, WITH MARKET OPERATORS CLAIMING BANK OF ENGLAND SUPPORT ON MONDAY MORNING. THE TREND DESCRIBED LAST WEEK CONTINUED: PROFESSIONAL SHORT SELLING BY CONTINENTAL TRADERS IN THE MORNINGS, NEW YORK PROVIDING SMALL NET BUYING PRESSURE FOR STERLING IN THE AFTERNOONS. AND CONTINENTAL SHORT POSITIONS THEN BEING CLOSED. GOOD TWO-WAY TRADING WITH A NET IN FAVOR OF STERLING PURCHASERS IS THE WAY ONE OBSERVER DESCRIBED THIS WEEK'S MARKET.

4. SHARP FALLS ON SHORT-TERM INTEREST RATES OVER THIS WEEKWERE IN CONTRAST TO LITTLE CHANGED RATES ON LONGER TERM INSTRUMENTS. THE DECLINE IN SHORT RATES OVER THE WEEK ENDED APRIL 26 WAS ON THE ORDER OF 0.5 PERCENT WHILE GILT REDEMPTION YIELDS FELL LESS THAN 0.1 PERCENT.

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THE BANK OF ENGLAND LET THE MINIMUM LENDING RATE (MLR) FALL BY 1/4 PERCENT TO 8-3/4 PERCENT, THE LOWEST LEVEL SINCE JULY 20, 1973. THE LOW AVERAGE YIELD OF 8.0016 PERCENT AT LAST FRIDAY'S AUCTION AND FALLING RATES SINCE THEN HAVE ENGENDERED THE EXPECTATION OF AT LEAST ANOTHER 1/4 PERCENT FALL IN THE MLR AT THIS FRIDAY'S AUCTION.

THE MAJOR CLEARING BANKS ON MONDAY AND TUESDAY REDUCED THEIR BASE LENDING RATES FROM 9-1/2 PERCENT TO 9 PERCENT. AND THEIR RATE ON SEVEN-DAY BRANCH DEPOSITS FROM 5 PERCENT TO 4-1/2 PERCENT. THIS IS THE BASE LENDING RATE'S LOWEST LEVEL SINCE AUGUST 1973. A BASE LENDING

RATE OF 9 PERCENT MEANS THAT BLUE CHIP CORPORATIONS WILL PAY ABOUT 10-11 PERCENT FOR USING OVERDRAFT FACILITIES, AND OTHER BORROWERS ABOUT 13-1/2 - 14 PERCENT. THE DECLINE IN DEPOSIT RATES COULD STIMULATE FURTHER GROWTH IN BUILDING SOCIETY RESOURCES AND A FALL IN MORTGAGE RATES.

5. THE DEPARTMENT OF ENERGY'S BROWN BOOK OF OFFSHORE STATISTICS NARROWS THE RANGE OF ESTIMATED 1977-1979 OIL PRODUCTION TO THE HIGH REGION OF LAST YEAR'S ESTIMATES. BUT LOWERS THE RANGE OF ESTIMATES FOR 1980.

FORECAST OF U.K. CONTINENTAL SHELF OIL

PRODUCTION (MILLIONS OF TONS)

1976 1977 1978 1979 1980 1981

1976 FORECAST 15-20 35-45 55-70 75-95 95-115

CURRENT FORECAST -- 40-45 60-70 80-95 90-110 110-120

THE FAST BUILDUP IN OUTPUT FOR THE FIRST PART OF 1977, AS MARCH PRODUCTION AVERAGED 720,000 BARRELS/DAY, ENCOURAGED THE UPWARD REVISION FOR THE NEAR FUTURE. DELAYS IN BRINGING NEW OILFIELDS ON STREAM ARE RESPONSIBLE FOR THE DOWNWARD REVISION OF 1980'S PRODUCTION, ALTHOUGH THE FORECAST LEVEL SHOULD STILL MAKE THE U.K. SELF-SUFFICIENT IN OIL PRODUCTION. LAST YEAR'S PRODUCTION WAS BUT 12 MILLION TONS. CONSIDERABLY BELOW THE DEPARTMENT OF ENERGY'S 1976 FORECAST.

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AT A PRESS CONFERENCE RELEASING THE MOST RECENT PRODUCTION ESTIMATES' DR. J. DICKSON MABON. MINISTER OF STATE

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INRE-00 L-03 H-02 PA-02 PRS-01 IGA-02 FEAE-00

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O R 271855Z APR 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 3169
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
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FOREENERGY, IS REPORTED TO HAVE SAID THAT THIS YEAR'S SUB-
STANTIAL INCREASE IN NORTH SEA OIL PRODUCTION SHOULD PUT
THE U.K.'S TRADE ACCOUNT INTO BALANCE THIS YEAR AND INTO
SURPLUS IN 1978. HE IS REPORTED TO HAVE SAID THAT THE
BALANCE OF PAYMENTS BENEFITS IN 1976 REACHED ABOUT 1,000
MILLION POUNDS. (HMTREASURY, HOWEVER, IN JULY ESTIMATED
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THE 1976 BALANCE OF PAYMENTS BENEFITS TO BE 1.150 MILLION
POUNDS UNDER THE ASSUMPTION OF 15-20 MILLION TONS OF
1976 PRODUCTION.)

6. GREEN POUND DEVALUED AS PART OF A BROAD SETTLEMENT
ON 1977 PRICES, BRITAIN AGREED TO A 2.9 PERCENT DEVALUA-
TION IN THE "SO-CALLED" GREEN POUND. "GREEN" CURRENCIES
ARE USED AS UNITS OF ACCOUNT BY MEMBERS OF THE EUROPEAN
COMMUNITY IN INTRA-COMMUNITY TRADE IN AGRICULTURAL COM-
MODITIES. THE GREEN PARITIES WHICH ARE DENOMINATED IN
EUROPEAN UNITS OF ACCOUNTS ARE NOT SUBJECT TO DAY-TO-DAY
FLUCTUATIONS BUT THEY ARE FIXED BY MUTUAL AGREEMENT. AS
A RESULT OF THE CHANGE, STERLING'S GREEN PARITY WILL BE
SET AT 1.70464 UNITS OF ACCOUNT COMPARED WITH THE OLD
PARITY OF 1.7556 UNITS OF ACCOUNT. ACCORDING TO PRESS
REPORTS THE CHANGE IN THE GREEN POUND PARITY IS EXPECTED
TO ADD ABOUT ANOTHER 0.5 PERCENT TO FOOD PRICES.

7. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
4/20	4-3/4	5-1/8	5-3/8
4/21	4-1/2	5-1/8	5-1/2
4/22	5	5-1/8	5-3/8
4/25	5-1/4	5-1/8	5-1/2
4/26	5	5-1/4	5-5/8

CHANGE 4/19-4/26 UP 1/8 UP 1/8 UP 1/4

8. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST

RATE DIFFERENTIAL

DATE	
4/20	3-15/32
4/21	3-5/16
4/22	3-11/16
4/25	3-15/32
4/26	3

CHANGE 4/19-4/26 NARROWED 15/32

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CIAE-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06
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INRE-00 L-03 H-02 PA-02 PRS-01 IGA-02 FEAE-00
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O R 271855Z APR 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 3170
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
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9. EXCHANGE RATE AND GOLD EFFECTIVE EX-
 CHANGE RATE

DATE	EXCHANGE (DEC. 1971 RATE (\$)	EQUALS 100)	GOLD (\$)
4/20	1.7196	61.8	149-1/8

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4/21	1.7193	61.7	148-5/8
4/22	1.7186	61.7	150-1/8
\$ 4/25	1.7193	61.7	148-3/8
4/26	1.7193	61.8	147-1/8

CHANGE 4/19-4/26 UNCHANGED UP 0.1 DOWN 3-5/8

10. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
4/20	0.58	1.69	3.67
4/21	0.53	1.65	3.55
4/22	0.50	1.62	3.45
4/25	0.52	1.62	3.60
4/26	0.58	1.70	3.50

CHANGE 4/19-4/26 NAR. 0.07 NAR. 0.17 NAR. 0.35

(ALL FIGURES IN CENTS)

11. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
4/20	8-13/16	8-17/32	8-13/16
4/21	8-11/32	8-5/16	8-5/8
4/22	8-1/4	8-3/16	8-1/2
4/25	8-7/32	8-7/16	8-25/64
4/26	8-7/32	8-1/8	8-5/16

CHANGE 4/19-4/26 DOWN 9/64 DOWN 7/16 DOWN 35/64

12. THE MINIMUM LENDING RATE FELL BY 1/4 PERCENT TO 8-3/4
 PERCENT AS THE BANK OF ENGLAND PERMITTED IT TO BE DETER-
 MINED BY THE TREASURY BILL RATE-BASED FORMULA. THE TREAS-

URY BILL RATE FELL 0.4325 PERCENT TO 8.0016 PERCENT AT
FRIDAY'S AUCTION AS 1,136.76 MILLION POUNDS IN BIDS WERE
RECEIVED FOR THE 300 MILLION POUNDS TENDERED. THIS WEEK
350 MILLION POUNDS IN BILLS WILL BE ON OFFER AS 300 MIL-
LION POUNDS MATURE.

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Message Attributes

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